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ABSTRACT

This report describes the process and outcomes of implementing Oregon state legislation (Senate Bill 814 in 1991), which restructured the state's special education funding system. The new system provides districts with grants that are twice the regular per student allocation for every identified special education student up to 11 percent of the total school population. Specific features of this formula include its neutrality with regard to disabling condition and placement, lack of additional required paperwork, lack of a requirement to use funds only on students with disabilities, and a weighting to adjust for district wealth. A chapter on the historical context for reform notes the influences of the existing system of excess cost reimbursement and interdistrict inequities. Additional chapters summarize stakeholder perceptions of the major issues leading to reform, specify the objectives for reform, and explain the current formula. A chapter on the impact of reform reports on a survey of administrators, parents, lobbyists, and representatives of key advocacy groups. It addresses the system's objectives in the areas of equity, adequacy, identification, placement, services, technical assistance and staff development, and other concerns. Overall, reactions to the current special education funding mechanism have been positive. (DB)

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State Analysis Series

A Profile of Special Education Finance Reform in Oregon

Deborah L. Montgomery
March 1995

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Center for Special Education Finance

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The Center for Special Education Finance (CSEF) is part of the John C. Flanagan Research Center at the American Institutes for Research (AIR), Palo Alto, California.

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The Center for Special Education Finance (CSEF) was established in October 1992 to address a comprehensive set of fiscal issues related to the delivery and support of special education services to children throughout the U.S. The Center's mission is to provide information needed by policymakers to make informed decisions regarding the provision of services to children with disabilities, and to provide opportunities for information sharing regarding critical fiscal policy issues.

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CSEF issues similar profiles of reform in other states, as well as state-level cost analyses, as part of our *State Analysis Series*.

Contents

I. Historical Context for Reform 1

Local Property Taxes and State Grants-in-Aid 1

Excess cost reimbursement 2

Interdistrict inequity driving reform 2

Senate Bill 814 3

II. Stakeholder Perceptions of the Major Issues Leading to Reform 7

III. Objectives for Reform 11

IV. Current Formula 13

V. Impact of Reform 15

Equity 15

Adequacy 16

Identification 18

Placement 19

Services 20

Technical Assistance and Staff Development 20

Other Concerns 21

VI. Conclusion 25

References 27

I. Historical Context for Reform

Oregon is one of a number of states where major special education funding reform has been implemented within the last 5 years. This paper traces the historical context for this reform as it relates to special education policy, programs, and services; describes the objectives for reform and the mechanics of the new state funding system for special education; and presents a summary of interviews with state- and local-level stakeholders during the second year of statewide implementation of the new formula. Interviews were conducted by the Center for Special Education Finance (CSEF) in an effort to document the perceptions of staff, parents, and advocacy groups directly affected by the reforms, and to assess the impact of the new funding system on special education programs and services.

Local Property Taxes and State Grants-in-Aid

Local property taxes have historically contributed approximately 80 percent of the total resources to support Oregon's K-12 public schools, with state Basic School Support Funds contributing approximately 20 percent. Special education funds were provided by the state through grants-in-aid specifically targeted for serving children with disabilities. The grants-in-aid were intended as reimbursements for the allowable excess costs of providing special education and were awarded directly to local school districts and intermediate units. A separate grants-in-aid budget supported state-operated programs providing educational services for children who were placed in hospitals or treatment centers primarily to benefit from noneducational medical or psychological services. Allowable excess costs, defined by the Oregon Revised Statutes and the corresponding Oregon Administrative Rules, included the salaries of approved teaching and support personnel, supplies, equipment, and other approved operating costs specified in the regulations.

■ Excess cost reimbursement

Excess cost reimbursement was provided through two state funds, the **Handicapped Child Fund** and the **Trainable Mentally Retarded (TMR) Fund**. Both required the subtraction of federal or state funds from the total cost prior to calculating the reimbursement. The handicapped child fund and the TMR fund were authorized at 30 percent and 50 percent of allowable excess costs, respectively. However, from 1987 through 1991, state funds for this reimbursement actually only provided less than 10 percent of districts' approved excess costs.

The excess cost model, Oregon's predominant special education financing system for many years, was supplemented by other mechanisms that allowed districts to bring in additional revenue to provide services for extraordinarily high cost students. The **Extraordinary Handicapped Child Fund** allowed districts to apply for reimbursement of up to 70 percent of the excess costs associated with serving students with multiple disabilities or extreme behavior problems. Districts had to demonstrate extraordinary costs, as defined by the Oregon Administrative Rule, and the available revenue was limited to 1 percent of the handicapped child fund. Few districts were actually able to demonstrate unique and extreme costs, other than those placing children in out-of-state residential facilities for educational purposes.

School districts also had the opportunity to supplement their special education budgets through the **Dependent Child Billing System**. This provision allowed a district to bill the parents' district of residence when children were placed by the state in a public out-of-district residential facility serving five or more children. The district providing services was allowed to claim up to two times their regular tuition payment from the district where the child's parents resided at the time of placement. Oregon's historical reliance on local property taxes, promulgated by the belief that school funds should come from taxes generated by the school districts' own residents, formed the basis for this law (Brazeau, 1993).

■ Interdistrict inequity driving reform

The evolution of Oregon's prior financing method for special education has been described as "patchwork" and "piecemeal" rather than the result of thoughtful planning (Brazeau, 1993). Over the years, the system has been blamed for

creating a "tremendous paperwork burden" at both the state and local levels. In addition, due to the fact that the special education grants-in-aid did not take into account a district's ability to pay, higher spending districts were receiving a greater proportion of state reimbursement than lower spending districts. The resulting inequity across districts became one of the major driving forces for statewide reform.

In 1990, Oregon passed Ballot Measure Five, which limited property taxes and required the state to pay a greater share for public education. As a result, the state's entire school funding system collapsed. With no alternative revenue source, and with the mandate for an increased state role, policy and lawmakers were forced to create a new funding and distribution mechanism for education.

■ Senate Bill 814

Lawmakers, school personnel, and key advocacy groups were involved in the planning for Senate Bill 814, enacted in 1991, establishing a comprehensive restructuring of the funding system. A new State School Fund became operative in July 1992, replacing the Basic School Support Fund and distribution formula.

The new system provides funds for special education by granting districts two times the regular per student allocation for every identified special education student, up to a cap of 11 percent of the total school population measured as average daily membership (ADM). Those districts claiming more than 11 percent may appeal to the state Department of Education for additional funding from the State School Fund. If granted, however, the reimbursement for identified special education students over the 11 percent cap occurs at a reduced rate (i.e., less than the pupil weighting of 2.0). With implementation of Senate Bill 814, the **Handicapped Child Fund**, the **TMR Fund**, and the **Dependent Child Billing System** were abolished. The **Extraordinary Handicapped Child Fund** remained intact for one year, after which time this fund was also terminated.

The double weighting formula for special education in SB 814 was derived from research showing special education costs per student to average out at approximately twice the cost of regular education (Moore, Strang, Schwartz, & Braddock, 1988). The Oregon legislature used national and state census and cost data, along with state data showing relatively even distribution of children with various types of disabilities across Oregon school districts, to arrive at the final formula.

The new formula has a number of features that distinguish it from the previous distribution system. It is designed to be neutral with regard to disabling condition and placement. It does not require districts to engage in any more paperwork than that required under federal law, and thus has significantly reduced the burden created by the prior system. Also, no requirement is in place to use the funds targeted for special education only on students with disabilities. The intention of this feature of the law was "to provide schools with the funds necessary to educate the students, whether disabled or not" (Brazeau, 1993). Placement neutrality, increased flexibility in the use of funds, and decreased paperwork are all changes with potential for substantial impact on the delivery of special education services in Oregon.

The shift from local to state authority for regular and special education funding and the added flexibility in district use of funds have implications with regard to district accountability for resource allocation. In particular, there is greater concern among some constituents that funds generated by special education students are used appropriately and are sufficient to meet the needs of individual students. Special education advocacy groups have recently voiced interest in returning to a categorical funding system to ensure that funds targeted for special education are used for that purpose. Others respondents, however, argued that district accountability for the educational outcomes of *all* students is what is needed.

Another major change in the state distribution of funds for special education is that ability to pay is now accounted for in determining each district's allocation. This occurs as a result of the link between the special education weight and the regular education per student allocation, which is adjusted for district wealth. The resulting distribution is therefore more equitable in relation to local ability to pay than under the prior excess cost reimbursement system.

The loss of the property tax base since the passage of Measure Five in 1990 continues to have a major impact on school finance in Oregon. Measure Five, the tax limitation bill, took away districts' ability to generate additional dollars through supplemental tax levies. Consequently, many districts throughout the state are facing budget shortfalls and anticipate staff and program cuts. In 1993, a sales tax measure was defeated, leaving no alternative source of revenue. Stakeholders interviewed for this reform profile declared the situation a "fiscal crisis" and identified inadequate funding as the major challenge currently confronting Oregon's education system. With increasingly limited special and

regular education funds that are no longer distinguished as separate funding streams, districts are now challenged with providing the most appropriate and cost effective education programs and services for every student according to his or her unique and special needs.

II. Stakeholder Perceptions of the Major Issues Leading to Reform

During telephone interviews, stakeholders were asked what they perceived as the major concerns with Oregon's previous special education funding system that led to the implementation of reforms. Special education directors, superintendents, parents, policymakers, and representatives from the state school board association, teacher's association, and other key advocacy groups were interviewed. The consensus among these individuals was that the previous funding system was inequitable across districts, cumbersome in its complexity and required paperwork, and driven by labels or placements. Some also expressed concern that the entire system was "woefully underfunded."

With reimbursement dependent on detailed documentation of the allowable excess costs of providing special education services, the previous funding system was said to be "hard to understand" and "very time consuming." Stakeholders reported that it resulted in higher spending districts receiving a greater proportion of state funds, regardless of the district's ability to pay or its tax base. Despite regulations governing allowable costs, distribution was also perceived as inequitable due to variations in the interpretation of the law. One of the respondents noted, "What one district claimed as excess cost would vary considerably from another."

Regarding the burden of paperwork created by the excess cost reimbursement system, a local director of special education reported, "There were so many separate kinds of paperwork that had to be done. It was very paper and time intensive." Another director said, "I'm aware that the amount of clerical and

manpower time for calculating the excess costs and for monitoring took away from the job of supporting education. This siphoned off state education agency resources to local districts due to the time and effort required." Some of those interviewed felt that the complexity of the system was the major problem. "The paper trail was confusing—it was hard to figure out where the money was going," reported a representative from an advocacy group for parents of children with disabilities.

Furthermore, a respondent noted that the grants-in-aid budget fund for students with disabilities "didn't begin or even pretend to pay excess costs." Another respondent described the motive for changing the statute as being "truly related to a taxpayers' revolt for the costs of paying taxes," and not necessarily attributable to concerns about the actual mechanism for funding special education.

The excess cost funding system was also criticized for creating incentives for certain types of eligibility determinations and placements. A local director said, "it didn't allow us to function in a 'value-free' way." Another director stated, "getting more money for severely handicapped [students] gave a tendency to label that way if in doubt." Disincentives to serve children within districts or to otherwise provide appropriate services were also said to result from the excess cost system. A third director said,

> Districts overqualified youngsters and there were real differences between the criteria used by districts. For example, districts identifying slow learners would be receiving disparate amounts compared with those servicing such children without labeling them. Finally, we became so aware that you couldn't put a price tag on a handicapping label or a quality service, and in fact lots of times higher quality services were less expensive than lower quality services. A child with very severe needs required less in an inclusive setting if the educational community came together to support and help provide the services. Funding by condition or service structure was problematic.

A parent advocate expressed the concern that "different programs and disabilities were getting different funding, and there was no good data as to the influence of funding on placement."

Although many of the directors of special education expressed similar concerns with the excess cost funding system, they also acknowledged that the immediate pressure for reform was largely caused by the fact that after 1990, districts could not rely on their own tax base for funding. As a result of the property tax limitations of Measure Five and the increased responsibility of the state to fund education more equitably, the legislature was forced to devise a new state funding mechanism. *Equity* became one of the key forces driving statewide education funding reform.

III. Objectives for Reform

In addition to equity, the most common perceptions of the state's objectives for reforming the special education funding system included simplicity, efficiency, reduction of paperwork, and placement and identification neutrality. Several people also acknowledged the state's objective to maximize local flexibility, as evidenced by the pooling of district funds to serve *all* children, and the removal of incentives for more restrictive special education placements. One respondent summed up her view of the objectives behind the reform: "to quit haggling over what kids were and what they need." A parent perceived "inclusion" as the major objective for reform. She explained it as an attempt "to put them [special education students] on a more equal basis compared with other students in education . . . but with extra funding." In light of the fact that special education funding reforms were part of a larger package of statewide education reforms, the broader policy goal of interdistrict equity based on student needs (including special education, limited English proficient, and poverty), was most commonly cited among those interviewed.

In summary, Oregon's principal objectives for special education finance reform include the following:

- To distribute funds to districts to serve all students without creating incentives for placement
- To reduce paperwork burden
- To link special education funding to regular education funding
- To maximize local flexibility

IV. Current Formula

The **State School Fund**, implemented in 1992 as a result of Senate Bill 814, includes a system of weights for a number of different enrollment categories, one of which is special education. A brief description of Oregon's special education funding formula is shown below. The weighted student formula provides districts with twice as much revenue for special education students as for regular education students. The district's basic state school fund grant for regular education is determined in part by the district's average daily membership (ADM), and includes an adjustment for teacher experience. Additional weights for students needing bilingual education, English as a Second Language, and for those affected by poverty are also factored into the district's total state school fund grant. Excluding the poverty weight, no student may be weighted more than 3.0 in total.

Oregon's Special Education Funding Formula

- For every special education student, districts receive an amount equal to twice the per student amount available for regular education students.
- The number of special education students that may be claimed for state funding is limited to 11 percent of a district's total school population.
- Districts may apply to the Department of Education for a special allowance of more than 11 percent of their population for special education weighting.

As mentioned earlier in this report, there is a cap of 11 percent of the total ADM that may be identified for special education reimbursement. Districts with extraordinarily high numbers of special education students (i.e., greater than 11 percent of the ADM) may apply to the Oregon Department of Education for additional funds. However, reimbursement for justified special education identification over 11 percent is granted at a rate that is lower than two times the per student funding for regular education students. The money generated by special education students goes directly to districts, where it is left to their discretion how the funds are allocated to programs.

V. Impact of Reform

This profile was being prepared when Oregon was just beginning its third year of implementing the new State School Fund and distribution formula. Thus, the findings are limited to the impact of the reforms *in the short term*, as perceived by education administrators, parents, lobbyists, and representatives of key advocacy groups from around the state who were interviewed. Opinions expressed by respondents do not necessarily reflect the consensus of opinions across the state, although a balance of perspectives on the special education funding reforms was sought. Furthermore, since the passage of Measure Five in 1990 and the subsequent "fiscal crisis" that many districts have been experiencing, district personnel, advocacy groups, and parents often found it difficult to distinguish the impact of the new funding formula from the impact of Measure Five. All of the respondents referred to this "clouding of the issues" caused by the property tax limitations of Measure Five.

Equity

The special education constituents interviewed for this profile expressed a range of opinions regarding the effectiveness of the new formula in meeting the state's objectives for reform thus far. Most of those interviewed described the new funding system as more equitable than the previous one, pointing out that poorer districts have increased their per student spending to more closely match the statewide median, even though some were concerned this is not happening quickly enough. Conversely, respondents from wealthier districts argued that they were being hurt by decreases in revenues and claimed they were having to compromise high quality programs for mediocre ones. A number of respondents mentioned the inadequacy of funding statewide, and stated it was impossible to see benefits in this "time of drastic budget cuts." Even those districts benefiting from funding increases as a result of the reform predicted a leveling off and

subsequent budget shortfalls within the next few years. A county case manager who is also a parent of a child with special needs described what she saw as continuing inequity across schools, saying that "kids with disabilities in poorer schools are at a disadvantage."

A superintendent whose district had gained revenues under the new system as a result of the Limited English Proficient (LEP) student weighting thought the formula was fair. However, he emphasized that the district was not "gloating" over the fact that their gains had been made at others' expense. Indeed, he suggested that the biggest problem for some districts was that the loss in revenue had been implemented too quickly. Citing Portland's experience of an $800 reduction in per student spending for its population of roughly 50,000 students, he said:

> The big losers like Portland—it's hurting them and their kids and for that matter it's hurting the whole state, as traditionally Portland School District has been the flagship. We're losing the high standard they have set as a model for others. The weakness with the current situation is that there is not enough money to bring everyone up to a high standard.

Adequacy

Although many interviewed respondents indicated that two times the regular education allotment for special education seemed fair, they also asserted that the level of education funding overall was inadequate due to the current fiscal "crisis" in the state. In addition, they alluded to the tension that has resulted between regular and special education over the allocation of scarce resources at the district level. This tension was seen to have both positive and negative outcomes. As one local director voiced, "The money crunch has enabled us to work more closely with other agencies. If we had all the aides in the world, we'd lose the benefit we have now of having to be resourceful and problem-solve. This is seen as a beneficial and creative educational process." A parent trainer and advocate described one district's creativity in addressing more requests for aides than money available. The district bought pagers to be used by children who did not require full-time aides, such as those who only needed help with positioning at various times during the day. This allowed aides to work with a greater number of children, and gave those children with the pagers a greater sense of independence, compared with being "shadowed" by an aide all day long.

Others said that inadequate funding has "made allies out of all educational consumers," since it has affected both regular and special education alike. With the increase in district responsibility for serving special needs children, districts had a greater sense of "ownership" regarding special education placement decisions. They were more carefully and consciously considering how to allocate dollars for special education services. One director pointed out that, as a result, special education has a more positive image, since the funds that are generated by special education students can be spent on other students as well. Referring to a district's strong commitment to providing resources for prereferral teams, another director said, "We know there are kids getting benefit of services without being identified. We've increased our contact with nonidentified kids."

Conversely, other respondents felt that regular education services were being seriously compromised as a result of the spending flexibility provided by the new system. They argued that the federal mandate to provide a free appropriate public education (FAPE) to special education students had resulted in the "siphoning" of resources from regular education. A special education director stated, "This [budget crisis] has taken away from the gains made to unify the system." Parents, special education advocacy group representatives, and some directors expressed concern that the new funding system has no guarantees that money generated by special education students goes to support special education. The special education weighting of two times the regular education per student allocation was generally regarded as sufficient to cover the additional costs of special education. The overriding concern was that this amount could not necessarily be counted on due to the new formula's provision for district discretion in the allocation of all education funds.

Inadequate funding was also seen as a detriment to the greater inclusion of children with disabilities in regular classrooms. Where districts have had to decrease budgets, class sizes have grown and the number of classroom aides has been reduced. This was said to have the effect of limiting special education students' access to more integrated settings. Parents of children with disabilities reported they are "fighting for everything," that support services are lacking, and that they are worried when they hear their districts are forecasting further cuts in aides, transportation, and other support services which they already perceive as deficient. "Everything has been a struggle," complained one parent, describing attempts to have her child included in a regular classroom. Citing their district's shortage of classroom aides, some parents reported being given the unsatis-

factory choice between an inclusive environment with no support or a more segregated self-contained placement for their child.

Identification

Apart from the budgetary limitations that have resulted from Measure Five and the subsequent cuts that many districts are facing, respondents reported other concerns specific to the way the new funding system operates and impacts services. The most frequently cited concern was the incentive that has been created to identify up to the 11 percent cap to maximize district funds. One director suggested that the new formula "puts a bounty on special education students," creating an incentive for identification. A number of directors said they would have liked it better if the student weight reimbursement had been based on a fixed percentage of the ADM, as opposed to the number of children identified as eligible for special education. As one director stated, "the formula philosophically assumes there is a valid reason for some districts having higher percentages of special education students than another. . . .I question that assumption."

Opinions varied regarding the extent to which districts were actually encouraging identification of students to reach the allowed cap of 11 percent. One director believed there was a strong incentive for special education directors and some superintendents to maximize funds by maintaining their counts at 11 percent. He added, "This is counterproductive to what special education is trying to accomplish, which is to serve the needs of the students." Another director said, "I would have to think that there's an incentive to reach the cap, but our count went down—there is no push to increase the count in our district—just jokes about it." A legislative advocate described one district where the special education director was being asked by the superintendent to bring the count to 11 percent and cited another district whose count had risen from 6 to 11 percent since implementation of the new law. One director admitted to changing district policy on identification of children for special education in kindergarten. Previously, this district had tended not to identify children in kindergarten because special education staff would work with *all* students within regular classrooms. Now, to increase their count, they were starting to identify these children, although they were not very comfortable "pushing [teachers] to label."

Identification of fewer than 11 percent ADM raised additional concerns. A special education director said, "if you identify 7 percent, you are severely penalized." Another said, "If counts go down because you are doing a good job, you get less money," and "those districts who are overidentifying can go over the cap and get even more money." One district's special education count decreased by 1.5 percent resulting in $300,000 less funding—"less money for special education for doing just what the state was asking us to do by not identifying. . . a real kick in the teeth to the supported education model." Another respondent suggested that the legislation should be changed to provide funding to districts for up to 11 percent ADM if the district could show effective prevention through early intervention services. Across the state, respondents mentioned the lack of money for prevention or prereferral services, and most agreed it would be advantageous to be able to offer prevention services without having to label children.

Some districts with counts greater than 11 percent also viewed the system as punitive since they were required to show justification and petition for additional funds. The criteria on which exemptions were based were not always clear to district personnel, and if exemptions were granted for counts over 11 percent, funds were only available at a reduced rate.

Placement

Several parents and advocacy group representatives expressed concern that the formula created an incentive for using cheaper placements, since districts were now making decisions about the allocation of dollars for regular and special education placements and services. Most of the interviewed directors, however, believed that placement decisions were based on the most appropriate settings for individual children, and not on the cost of programs. A special education director of an educational service district said, "There is a lot of trust to use the money wisely—I haven't seen the formula get in the way. So far, the emphasis is on appropriate services rather than finances. At this point, districts have made a real cooperative effort." Other respondents indicated that the new formula provided greater incentives for placements within regular education classrooms by removing the link between placement and funding: "Previously, if a child was out in a regular classroom, you couldn't be reimbursed."

Services

Most of the interviewed stakeholders thought the new funding formula for special education had not substantially impacted direct services for special or regular education students. The major factors attributed with having the most fundamental impact on services were the statewide budget cuts resulting from Measure Five and the intensity of local efforts to design and implement programs fostering inclusionary practices, resulting in community-based models of "supported education."

Administrative commitment to and encouragement of supported education usually meant that districts were able to maximize existing resources to promote preventive and inclusive practices. An educational service district director described the recent formation of prereferral teams in 23 of 29 districts, inclusive pilot programs using a team model, and a support network for teachers to learn about inclusive practices. A superintendent reported that they were trying to promote inclusion in the district by having special education directors work closely with principals "to reach a philosophical agreement," adding, "then implementation is not a problem."

Technical Assistance and Staff Development

Several district directors of special education applauded the state's provision of technical assistance, saying they have done a "fabulous job with inservice and supportive education training" and a "wonderful job of supporting districts who want their help." Trainers were described as "truly effective consultants." Although one individual thought the state-provided training was "more than enough," others listed several areas for needed training. Most often mentioned was the need for additional training for regular education teachers, classroom aides, school principals, and parents. In some areas, budget cuts and claims of "too many administrators" have resulted in special education administrators' responsibilities being taken over by committees or by school principals. There is some concern that if these positions are being replaced by individuals with no background in special education or knowledge of the law, the provision of appropriate services may be jeopardized.

A parent who fought for her child to be the first in her district to be included in a regular classroom voiced her frustration with the voluntary nature of the state-provided assistance—available to those districts who request it. This parent did

not understand the state's philosophy which she described as "don't water the stumps, water the plants that grow," and referred to the lack of staff awareness that she encountered while fighting for an inclusive placement for her child. Another parent said, "There is a real need for awareness; training now is optional—and largely in the form of video presentations. . .there is nothing required in the regular education teacher certification for training on inclusion." A parent trainer and advocate also questioned the policy that training is available to districts on a voluntary basis, saying, "even if it's a teacher with the spirit of inclusion, they just aren't getting the training they need." She has recommended to other parents that their children's IEPs include staff training for specific adaptation needs for their children, saying "that may be the only way you can be sure it happens." In 1990, the Oregon Department of Education received a federal grant to provide inservice training to schools across the state interested in moving towards supported education. Due to the growth of interest in the limited state-provided training, only diverse teams of school staff are currently accepted, and the emphasis is on schoolwide reform and restructuring.

Other Concerns

Two other funding issues identified during interviews as somewhat problematic were (1) the inadequacy and inequity of educational service district (ESD) funds, and (2) the difficulties experienced by small or rural districts, in particular, in meeting the high costs associated with district placements for low incidence children.

A number of educational service districts, supported by county taxes, have experienced funding shortages due to the recent property tax limitations imposed by Measure Five. As the director of one ESD stated, "this puts ESDs in direct conflict with districts for funds." A special education administrator remarked, "Educational service districts have provided self-contained services previously for severe and trainable mentally retarded. Presently the school districts are the only ones who can claim those funds. The ESDs are finding themselves with the same number of students but no funds." In addition, since the ESDs have traditionally not been funded in the same way as school districts, equity is a recognized problem, with resources per student varying from $30 to $800 across ESDs. "We need to look at this and address it soon because as it is now, it is not fair."

Historically, ESDs have had their own tax base, and the use of ESD funds has been determined by a resolution defined by the regular school district superintendents within the region. Providing a mix of services at district school sites within their region, ESDs hired teachers and ran transportation programs to serve the participating districts. In some counties, ESDs had developed enough of a tax base to be able to provide special education services at no cost to these districts. With the most recent finance reform, however, ESDs have begun to lose their tax base, and are now reliant on districts to purchase the services they provide.

The director of an ESD said that the $150,000 she had previously received was now being rolled into the general formula. As a result, she did not have the resources needed to maintain programs. For this reason she asked the ESD districts if they would be willing to "buy back" ESD services so that these programs would not have to be discontinued. Each district's share was determined by dividing their percentage ADM into $150,000. In this particular ESD, all but the three districts which had not previously been accessing ESD services agreed to contribute funds in this way so that ESD programs would not have to be sacrificed.

Another ESD-related issue that surfaced during interviews was that the funds flowing from the remaining local ESD tax base did not follow those children returning to district programs to be more fully included in regular education programs. "Districts are financially punished for bringing youngsters home [from ESDs], because the money doesn't follow the child," stated a district director of special education. "We were aware it was morally repugnant to leave students in self-contained units even if it meant being penalized financially."

In comparison, she described how the six state regional service areas "have done a wonderful job of revamping how they do business. They did away with their evaluation center and pay local people to serve their own kids so that funding is 'friendly' to local school districts." Regional services aid is approximately 37 million dollars in state general funds that come to the Department of Education. The State Department of Education contracts with six education agencies (districts or ESDs) across the state to provide specialized services for all of the schools within each regional service area. Regional agencies hire staff needed to serve children with autism or those having vision, hearing, orthopedic, or severe health impairments. Generally, it is the service providers, not the students, who travel under these programs. Regional service areas were not affected by the

recent school finance reforms. They are considered to be beneficial and cost-effective as they are currently organized, since the recruitment and retention of highly specialized staff is administered centrally by the six regional entities to serve all eligible children within each region.

Serving high cost special education students such as the medically fragile or children with severe behavioral problems in home school settings has been especially difficult for small or rural districts, where a single low incidence child can be very costly. Referring to the special education funds raised as a result of the "one size fits all" weight of 2.0, a parent educator and advocate remarked, "Everyone knows it doesn't begin to meet the needs of high cost kids." This educator counseled a number of parents who had been told their child could not be in an inclusive environment because there was no money for an aide in the classroom. A new kindergarten parent looking for an integrated environment for her child in the coming year hoped her child would not have to attend the county's more segregated program. However, she was worried that the number of special education students in her rural area might not be large enough to generate enough funds to hire the classroom aide needed to make a local placement possible.

Inadequate funding was also cited as a potential difficulty where, for example, a single deaf or extremely hard of hearing student in a small district might require an interpreter at a cost of $9,000 to $15,000 per year. A representative of the Oregon Confederation of School Administrators said that such students are ideally placed in a group of two or three other students if possible, so that the services of an interpreter can be shared.

VI. Conclusion

When asked to evaluate the effectiveness of the new special education funding formula in meeting the state's policy goals, stakeholders generally reported that the new formula was more equitable and simpler to understand than the previous one. They noted a reduction in the annual auditing paperwork burden and elimination of incentives for placements based on specific disability labels. Special education directors reported that district authority and flexibility in the use of funds had provided greater incentives for placements within regular education classrooms, and an increased sense of sharing between special and regular educators.

Overall, reactions to the current special education funding mechanism were positive, although there were those who felt that the 11 percent cap should be eliminated and the formula changed to reimbursement based on average daily membership. Inequities among educational service districts were reported, as were difficulties experienced by small rural districts serving low incidence children.

The larger concern among all of the interviewed constituents, however, was the continuing prospect of limited funding for education in general. With restricted funding and uncertainty about the new costs of integrating special education programs and services within regular education, both regular and special education administrators foresee difficult times ahead. As a result of spending cuts in some districts, some families report an unsatisfactory choice between a less restrictive environment with inadequate supports or a more restrictive placement for their children with disabilities.

Nevertheless, constituents were generally positive about the new funding formula for supported education in Oregon. Respondents also noted that pooled

funding at the district level had increased local flexibility and had removed the incentive for more restrictive placements. The overarching policy goals of equity, placement neutrality, and local flexibility appear to have been met with the new double weighting system in Oregon, although creative solutions will still be needed to respond to the considerable fiscal challenges facing special and general educators. A former special education director whose feelings about the most positive aspects of the reforms were echoed by many of those interviewed reflected:

> I like the new system. The way it was structured before, special ed kids were treated as 'your' kids to be serviced with 'your' money, and vice versa for regular education. Now neighborhood schools are taking ownership of special education youngsters and programs. If I had my druthers, we wouldn't have any separate systems, we'd have a single system of education. We have started to disassemble the two side-by-side systems and are beginning to have a more unitary approach to educating all kids.

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